MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BAC2634 – FINANCIAL ACCOUNTING & REPORTING II

(All Section / Groups)

14 OCTOBER 2017
9:00am to 12:00pm
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 9 pages with 4 questions only.
2. Answer **ALL** questions. The distribution of the marks to each question is given.
3. Please write all your answers in the answer booklet provided.

QUESTION 1

The summarised accounts of Microban Sdn Bhd for the year ended 31 March 2017 is as follows:

Statement of Profit or Loss for the year ended 31 March 2017

	RM'000
Revenue	236,500
Cost of sales	(114,500)
Gross profit	122,000
Distribution costs	(38,000)
Administration expenses	(24,000)
Finance income	3,000
Finance costs	(8,500)
Profit before tax	54,500
Income tax expense	(23,500)
Profit for the year	31,000

Statement of Financial Position as at 31 March 2017

	2017 RM'000	2016 RM'000
Non-current assets		
Property, plant and equipment	163,500	132,000
Current assets		
Inventories	61,500	88,000
Trade receivables	47,500	43,500
Short term investments	32,500	15,000
Cash at bank and in hand	14,500	-
Total current assets	156,000	146,500
Total assets	**319,500**	**278,500**
Equity		
Share capital – RM1 shares	100,000	60,000
Share premium	15,000	-
Revaluation surplus	33,000	48,500
Retained earnings	35,500	20,500
Total equity	183,500	129,000
Non-current liabilities		
10% Debentures	50,000	75,000

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Current liabilities		
Bank overdraft	-	11,000
Trade payables	63,000	35,000
Interest payable	3,500	1,500
Income tax payable	19,500	27,000
Total liabilities	136,000	149,500
Total equity and liabilities	**319,500**	**278,500**

Additional information:

i. Microban Sdn Bhd paid dividends for 2017 amounting to RM16,000,000.

ii. Property, plant and equipment held by Microban Sdn Bhd are items of plant and equipment and freehold premises. During 2017, items of plant and equipment which originally cost RM20,000,000 were disposed of, resulting in a loss of RM3,000,000. These items have a net book value of RM14,000,000 at the date of disposal.

iii. The short-term investments meet the definition of cash equivalents per MFRS107 Statement of cash flows.

iv. On 1 August 2016 RM25,000,000 of 10% debentures was converted into RM25,000,000 of RM1 ordinary shares.

v. The depreciation charge for the year amounting to RM21,500,000 was included in the statement of profit or loss.

Required:

Prepare the statement of cash flows for Microban Sdn. Bhd. for the year ended 31 March 2017 in accordance with MFRS 107 *Statement of Cash Flows* using indirect method.

(Total: 15 Marks)

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QUESTION 2

PART A

Index Sdn Bhd acquired a new plant on 1 April 2016. The cost price of the acquisition of a new plant was RM480,000. The transportation and installation of the plant was RM20,000. A government grant of thirty percent of its cost price was approved on its purchase. However, the grant was not received as at 31 December 2016. The company uses straight-line basis to depreciate the plant over four years assuming residual value of RM40,000. Its policy for capital-based government grants is to treat them as deferred credits and release them to income over the life of the asset to which they relate.

Required:

a. Prepare extracts of Index Sdn Bhd's statement of profit or loss and statement of financial position for the year ended 31 December 2016. (6 marks)

b. Explain the two conditions that Index Sdn Bhd should take into consideration when the company wants to recognise the government grant. (2 marks)

PART B

YZ Bhd. purchased a property located in Melaka on 1 January 2014 for RM30 million. The details of the property are as follows:

- The property purchased comprising a freehold land and a 20-storey building.
- The cost of the land was RM5 million at the time of purchase.
- After the acquisition, the building was renovated at a cost of RM3 million. The renovation was completed on 30 June 2014
- 18 floors were rented out to retailers, while two floors were used to operate its business activities.
- The estimated useful life of the building is 30 years.
- The company adopted the fair value model.

On 1 January 2015, an independent assessor valued the land and building at RM6 million and RM25 million, respectively.

On 1 January 2017, the tenancy of the building with retailers was terminated and YZ Bhd. has leased out all 18 floors to its employees. The remaining floors are used as the headquarters. The fair value of the land and building on 1 January 2017 are RM10 million and RM28 million, respectively.

Required:
Show the journal entries to record the above information from 2014 until 2017.

(12 marks)

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PART C

On 1 October 2014, Giant entered into a construction contract which expected to take 27 months and be completed on 31 December 2016. The agreed contract price is RM25 million and estimated total cost of contract (excluding plant) is RM11 million. Plant for use on this contract was purchased on 1 January 2015 (three months into the contract as it was not required at the start) at a cost of RM16 million. The plant has a four-year life and after two years, when the contract is completed, it will be transferred to another contract at its carrying amount.

The statement of profit or loss correctly reported the results for the contract for the year ended 31 March 2015 as follows:

	RM'000
Revenue recognised	7,000
Contract expenses recognised	(5,320)
Profit recognised	1,680

Details of the progress of the contract at 31 March 2016 are:	RM'000
Contract costs incurred to date (excluding depreciation)	9,600
Agreed value of work completed and billed to date	16,250
Total cash received to date (payments on account)	15,450

Additional Information:

- Annual depreciation is calculated using the straight-line method (assuming a nil residual value) and charged to the contract on an apportioned basis.
- The percentage of completion is calculated as the agreed value of work completed as a percentage of the agreed contract price.
- Giant financial year end is 31 March.

Required:

Prepare the Extract of Financial Statement of Giant including the disclosure note of amounts due to/from customers, for the year 31 March 2016 in respect of the above contract. (10 marks)

PART D

According to MFRS204 *Accounting for Aquaculture*, revenue is recognised at the point of sale of the product. The standard states that there are two bases for determining income in aquaculture operations.

Explain two bases for determining income in aquaculture operation in accordance with MFRS204 *Accounting for Aquaculture*. (5 marks)

(Total: 35 marks)

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QUESTION 3

PART A

The operations manager of Pokka Bhd., a newly established business that is involved in the development of pollution detections, preventions and solutions protocol, is seeking your advice on his company's request for a computer software to be used in managing the sales of the company. He is unsure of how to obtain the computer software, but realizes that different types of acquisition will impact the company's financial statements differently. He is considering the following possibilities:

i. Making a purchase of the computer software externally. The quotation that he has received includes packages for payroll and general ledger.

ii. Signing a contract with independent programmers to develop a computer software that will specifically cater for Pokka Bhd.'s own use.

iii. Employing his own programmers to write a computer software that the company will use.

Required:

a. Advise the operations manager on the impact of each possibility above on the company's financial statement. (6 marks)

b. Explain to the operations manager the criteria that need to be satisfied before expenditures on intangible items can be recognized in the Statement of Financial Position as intangible assets. (3 marks)

PART B

Beta Bhd is preparing its financial statements for the year ended 31 December 2016. The summarised profit or loss and movements in retained profits of Beta Bhd for the current year ended 31 December 2016 and the prior year ended 31 December 2015 are as follows:

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	2016 RM'000	2015 RM'000
Revenue	1,200.000	1,000,000
Cost of sales	(800,000)	(700,000)
Gross profit	400,000	300,000
Operating expenses	(200,000)	(140,000)
Profit before taxation	200,000	160,000
Income tax expense	(50,000)	(40,000)
Profit after taxation	150,000	120,000
Retained profits brought forward	400,000	280,000
Retained profits carried forward	550,000	400,000

The draft accounts were prepared before taking into account the following errors:

i. An under-provision of RM2,500,000 for a receivable in the prior year who has now been declared a bankrupt;

ii. The current tax provision of the prior year was overstated by RM1,000,000 based on the final self-assessment tax computation completed in the current year.

iii. The closing inventories in the prior years were over-stated by RM20,000,000 due to mathematical mistakes.

iv. Tax rate is 25%.

Required:

Show the journal entries to reflect the change in estimates, correct for the errors and the cumulative effect of the correction of error in the prior year on the opening balances of the current year in accordance with MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors.* (10 marks)

PART C

Strawberry Farm Sdn. Bhd established and commenced operation of a strawberry orchard in Cameron Highland in 2015. The following information are relevant for current year ended 30 June 2017:

- 80% of the strawberry are sold for RM80,000 with immaterial selling costs
- The remaining 20% are recognised as inventory
- Strawberry plant as at 1 July 2016 (at fair value less costs to sell) was RM100,000

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- Strawberry plant as at 30 June 2017 (at fair value less costs to sell) are RM120,000
- Expenses incurred during the year including fertiliser costs and employee expenses and other expenses amounted to RM20,000
- The fair value less costs to sell of the strawberry immediately after picking and packing amounted to RM100,000
- Costs incurred on picking and packing amounted to RM30,000

Required:

Prepare the journal entries to record:

a. The costs incurred to maintain the biological assets (2 marks)

b. The harvesting of the agricultural produce from the biological assets (4 marks)

c. The sale of the agricultural produce (4 marks)

d. The changes in the fair value of the biological assets between ends of the two reporting periods. (2 marks)

PART D

According to MFRS6 *Exploration for and Evaluation of Mineral Resources,* exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

Explain the circumstances when an entity should test exploration and evaluation assets for impairment. (4 marks)

(Total: 35 marks)

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QUESTION 4

Nexus Sdn Bhd is a manufacturing company operates in Shah Alam. The company manufactures auto electronics parts. The company's board of directors are pleased with the results of the year ended 31 December 2016 as the financial statements show a continuing improvement in the performance over the years. However, the finance directors suggests that a better assessment of the company's performance would be made by a comparison to other companies in the same sectors. The finance director has obtained some ratios for Nexus Sdn Bhd's business sector, based on a year of 31 December 2016. The ratios are:

Gross profit margin	21%
Operating profit margin	10.3%
Current ratio	1.6:1
Gearing (debt/equity)	36%
Return on capital employed (ROCE)	18.5%

The summarised financial statements of Nexus Sdn Bhd are:

Statement of profit or loss for the year ended 31 December 2016

	RM'000
Revenue	125,000
Cost of sales	(103,600)
Gross profit	21,400
Operating costs	(11,600)
Finance costs	(3,600)
Profit before tax	6,200
Income tax expense	(2,000)
Profit for the year	4,200

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Statement of financial position as at 31 December 2016

	RM'000	RM'000
Assets		
Non-current Assets		
Property, plant and equipment		41,400
Lease property		24,400
		65,800
Current assets		32,800
Total assets		98,600
Equity and Liabilities		
Equity		
Share capital		18,000
Property revaluation surplus		8,000
Retained earnings		21,200
		47,200
Non-current liabilities		
10% loan notes	20,000	
Finance lease obligations	12,800	32,800
Current liabilities		
Finance lease obligations	4,200	
Other current liabilities	14,400	18,600
Total equity and liabilities		98,600

Additional note:

- The finance lease obligations should be treated as debt in the ROCE and gearing calculation.
- Operating profit is the difference between gross profit and operating costs.

Required:

a) Calculate the following ratio for Nexus Sdn Bhd.
   i. Gross profit margin (1 mark)
   ii. Operating profit margin (1 mark)
   iii. Current ratio (1 mark)
   iv. Gearing (debt/equity) (1 mark)
   v. Return on capital employed (ROCE) (1 mark)

b) Analyse the financial performance and position of Nexus Sdn Bhd for the year to 31 December 2016 in comparison to the sector average. (10 marks)

(Total : 15 Marks)

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